

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 EUR-12 EA-07 ISO-00 IGA-02 CIAE-00

DODE-00 PM-04 H-01 INR-07 L-03 NSAE-00 NSC-05

PA-01 PRS-01 SP-02 SS-15 USIA-06 AID-05 COME-00

FRB-03 TRSE-00 XMB-02 OPIC-03 LAB-04 EPG-02

SIL-01 OMB-01 STR-04 CEA-01 /106 W

-----070101Z 060724 /14

R 061653Z MAY 77

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC 9774

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY CARACAS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY LISBON

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: EFIN, PO, BE

SUBJECT: FINANCIAL ASSISTANCE FOR PORTUGAL

REF: (A) STATE 100831, (B) BRUSSELS 4116

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1. SUMMARY. EMBASSY TODAY DELIVERED DIPLOMATIC NOTE ON FINANCIAL ASSISTANCE TO PORTUGAL IN ACCORDANCE WITH REFTEL A TO BOTH MINISTRY OF FOREIGN AFFAIRS AND FINANCE MINISTRY. THERE IS A DIFFERENCE OF VIEW BETWEEN THE TWO MINISTRIES ON THE US PROPOSAL FOR ASSISTANCE TO PORTUGAL. COORDINATION ON THE BELGIAN POSITION WILL BE SOUGHT IN NEXT FEW DAYS.

THE FINANCE MINISTRY PROMISED TO TRY TO PROVIDE A REPLY NEXT WEEK TO THE US PROPOSAL TO SEND REPRESENTATIVES TO A MEETING IN PARIS ON MAY 16. THE FINANCE MINISTRY EXPRESSED RESERVATIONS ON THE US APPROACH AND OUR PLAN, WHICH THE BELGIAN FINANCE MINISTER, DECLERCQ, WAS SAID TO HAVE STATED OPENLY AT THE G-10 MEETINGS IN WASHINGTON LAST WEEK. DESPITE THESE RESERVATIONS, WE BELIEVE THAT BELGIUM WILL PROBABLY BE REPRESENTED AT THE MAY 16 MEETING AND THAT THEY WILL ADHERE TO ANY EC CONSENSUS WHICH DEVELOPS.
END SUMMARY.

2. EMBASSY TODAY DELIVERED DIPLOMATIC NOTE ON FINANCIAL ASSISTANCE TO PORTUGAL IN ACCORDANCE WITH REFTEL A TO BOTH MINISTRY OF FOREIGN AFFAIRS (DEHENNIN, DEPUTY DIRECTOR GENERAL, ECONOMIC SECTION) AND MINISTRY OF FINANCE (VAN YPERSELE), REFERRING TO CHARGE'S EARLIER APPROACH TO FOREIGN MINISTER VAN ELSLANDE AND LATTER'S RESPONSE (REFTEL B).

3. FOREIGN MINISTRY CONTINUES TO BE PERSONALLY SYMPATHETIC TO NEED TO SUPPORT SOARES AND BELIEVES COORDINATED EC EFFORT MOST DESIRABLE APPROACH. DEHENNIN DOES NOT EXPECT NEW BELGIAN GOVERNMENT TO BE FORMED BEFORE END OF MAY, BUT BELIEVES THAT BELGIUM COULD PROBABLY BE REPRESENTED AT OFFICIAL LEVEL AT THE MEETING PROPOSED FOR MAY 16 IN PARIS PROVIDED IT IS CLEARLY UNDERSTOOD THAT MEETING IS INFORMATIONAL AND THAT INDIVIDUAL COUNTRIES WOULD NOT BE EXPECTED TO MAKE ANY PLEDGES OR COMMITMENTS ON PROPOSED ASSISTANCE AT THIS MEETING.
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4. FOREIGN MINISTRY IS AWARE OF RESERVATIONS OF FINANCE MINISTRY TO US APPROACH AND WILL BE MEETING SHORTLY TO REACH COORDINATED GOVERNMENT POSITION. FOREIGN MINISTER IS EXPECTED TO PRESS FOR OFFICIAL-LEVEL BELGIAN REPRESENTATION AT MAY 16 MEETING ON BASIS OF US NOTE. DEHENNIN SAID FOREIGN MINISTER HOPES TO OVERCOME RESISTANCE OF FINANCE MINISTRY, CITING OVERRIDING FOREIGN POLICY CONSIDERATIONS AND ASSURANCE THAT NO FINANCIAL COMMITMENTS WILL BE REQUIRED.

5. AT FINANCE MINISTRY, VAN YPERSELE SAID THAT HE WOULD DISCUSS THE INVITATION IMMEDIATELY WITH MINISTER DECLERCQ AND FOREIGN MINISTRY, AND TRY TO PROVIDE US AN ANSWER NEXT WEEK. HE THEN GAVE US MINFIN INITIAL REACTION TO THE US PROPOSAL, WHICH IS, TO PUT IF MILDLY, QUITE RESERVED.

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INFO OCT-01 ARA-06 EUR-12 EA-07 ISO-00 CIAE-00 DODE-00
PM-04 H-01 INR-07 L-03 NSAE-00 NSC-05 PA-01
PRS-01 SP-02 SS-15 USIA-06 AID-05 COME-00 FRB-03
TRSE-00 XMB-02 OPIC-03 LAB-04 EPG-02 SIL-01
OMB-01 STR-04 CEA-01 IGA-02 (ISO)W
-----171404Z 039772 /14

R 061653Z MAY 77
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 9775
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY CARACAS
AMEMBASSY COPENHAGEN
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6. ACCORDING TO VAN YPERSELE, BOTH DECLERCQ AND HE ARE
UNHAPPY WITH THE PLAN, FOR FOLLOWING REASONS WHICH HE
SAID DECLERCQ STATED OPENLY AT G-10 MEETINGS IN WASHINGTON
LAST WEEK:

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A. AS CONCERN THE EC COUNTRIES, WHATEVER IS DONE

FOR PORTUGAL (IF ANYTHING) SHOULD BE IN AN EC FRAMEWORK. WITH PORTUGAL'S APPLICATION FOR MEMBERSHIP, THE EC NOW HAS A COMMON CONCERN WITH THE EVOLUTION OF THE PORTUGUESE ECONOMY. THE US HAS BEEN HANDLING THE PORTUGAL CONSORTIUM TOO MUCH AS A BILATERAL MATTER.

B. DECLERCQ AND VAN YPERSELE SEE A CONTRADICTION BETWEEN THE US PUSH ON FINANCIAL ASSISTANCE TO PORTUGAL AND OUR POSITION ON THE OECD SAFETY NET (FSF). IT WOULD HAVE BEEN FAR PREFERABLE TO HAVE HAD THE FSF IN PLACE AND FUNCTIONING RATHER THAN HAVING TO MOUNT DIFFICULT AD HOC OPERATIONS SUCH AS PORTUGAL (VAN YPERSELE ADDED THAT OTHER SUCH PROBLEMS--E.G., TURKEY--COULD ALSO BE BECOMING CRUCIAL BEFORE TOO LONG). VAN YPERSELE SAID THAT BELGIUM APPRECIATES PROBLEMS WITH CONGRESS ON THE FSF (AS EXPLAINED BY SECRETARY BLUMENTHAL TO DECLERCQ LAST WEEK) AND WELCOMES US SUPPORT FOR THE WITVEEN FUND--BUT CONTINUES TO BELIEVE THAT THE FSF IS A HIGHLY DESIRABLE SUPPLEMENT TO IMF-BASED RESCUE OPERATIONS.

C. FINALLY, WITHOUT AN FSF OR OTHER INTERNATIONAL LENDING AGENCY INVOLVED, ANY BALANCE OF PAYMENTS HELP FOR PORTUGAL MUST COME OUT OF BUDGETARY RESOURCES RATHER THAN THROUGH CENTRAL BANK OPERATIONS. THIS WOULD BE EXTREMELY DIFFICULT FOR BELGIUM SINCE ITS BUDGET DEFICIT WILL BE SERIOUS THIS YEAR AND IN QUAIL.

7. COMMENT: WE RESPONDED TO VAN YPERSELE'S POINTS, STRESSING THE NEED FOR COOPERATIVE ACTION TO ADDRESS THE PORTUGAL PROBLEM ON ITS OWN EXCEPTIONAL TERMS, AND THE US DESIRE TO BEGIN IN MID-MAY WITH A USEFUL AND FOCUSED EXCHANGE OF VIEWS. DESPITE ITS DOMESTIC PROBLEMS AND RESERVATIONS, WE BELIEVE THAT BELGIUM WILL PROBABLY SEND REPRESENTATION TO THE MAY 16 MEETING AND THAT THIS REPRESENTATION WILL PROBABLY ADHERE TO ANY EC CONSENSUS WHICH LIMITED OFFICIAL USE

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MAY DEVELOP.

8. WE BELIEVE THAT OUR CASE WITH THE BELGIANS IS LIKELY TO BE STRENGTHENED, HOWEVER, (A) TO THE DEGREE THAT WE CAN MOVE THE EC MEMBERS TOWARD A JOINT EC EFFORT AND (B) TO THE EXTENT THAT WE STRESS THE POLITICAL IMPERATIVES OF THE CURRENT PORTUGUESE PROBLEM (I.E., PUTTING WHAT-MIGHT-HAVE-BEENS ON THE FSF ASIDE) AND THE IMPORTANCE OF HAVING AT LEAST TOKEN CONTRIBUTIONS FROM AS MANY COUNTRIES AS POSSIBLE, INCLUDING EVEN THOSE WITH ACUTE UNEMPLOYMENT AND BUDGETARY PROBLEMS, SUCH AS BELGIUM. RENNER

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